- CAPITAL INVESTMENT IN THE WEST
- AQUACULTURE IN BC
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Currents

Canada West FOUNDATION

Western Canada's Monthly Economic Bulletin

Vol. 2010, No. 4

Monthly Highlights

The Canadian economy has been adding new jobs over six of the last eight months, but not all parts of the West are benefitting. Albertans in particular feel quite left out, with job levels still trending down compared to what they were at the onset of the recession. After losing a total of 26,000 jobs from January to March, Alberta's unemployment rate is now 7.5%, the highest since 1996. In Saskatchewan, solid job creation over the last two months has led people to join the labour force in search of work. As a result, the unemployment rate has risen by 0.8 points from February to March, reaching 5.1%. This is still the lowest rate in Canada, and Manitoba is following closely at 5.2%.

In February, the year-to-year consumer inflation rate declined in all provinces except BC. The 1.2% price increase in BC reflected higher prices for traveller accommodation (+64.1%) and gasoline (+12.8%) as a result of the busy Olympic tourism season.

In January, wholesale sales were up across the West compared to December. Sales in Saskatchewan surged by 18.4%, the strongest increase for the province in more than 16 years. This growth was the result of higher trade at "other product" stores, which include agricultural fertilizer and supplies. Wholesale sales in BC rose 4.0% in January on the strength of the auto, machinery and electronic equipment sectors. Retail sales were relatively unchanged in January except for a 0.7% gain in Alberta. Despite the difficult employment situation, Alberta retail sales have made gains over four of the last five months.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,290	1,969	527	612	16,963	March
% change	0.0	-0.2	0.6	0.1	0.1	
Unemployment rate (%)	7.9	7.5	5.1	5.2	8.2	March
change in percentage points	0.2	0.6	0.8	-0.2	0.0	
Participation rate (%)	66.2	73.2	70.5	69.3	67.0	March
Average weekly earnings ($)	807.10	965.09	828.24	770.53	834.47	January
% change	-0.1	1.7	0.4	0.0	0.0	
Inflation						
Consumer Price Index (% change)*	1.2	1.0	1.0	1.3	1.6	January
Economic Activity						
Housing starts (000s)**	30.1	27.3	4.6	4.9	196.6	February
% change	9.1	16.2	-28.1	-3.9	6.0	
Retail trade ($M)	4,634	4,799	1,181	1,286	35,662	January
% change	0.0	0.7	-0.2	0.2	0.7	
Wholesale trade ($M)	4,388	5,085	1,575	1,126	44,365	January
% change	4.0	2.9	18.4	0.5	3.0	
Manufacturing sales ($M)	2,850	4,864	934	1,168	44,601	January
% change	4.2	1.4	1.3	-0.3	2.4	

*Compared to same month in the previous year. ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels). Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.*

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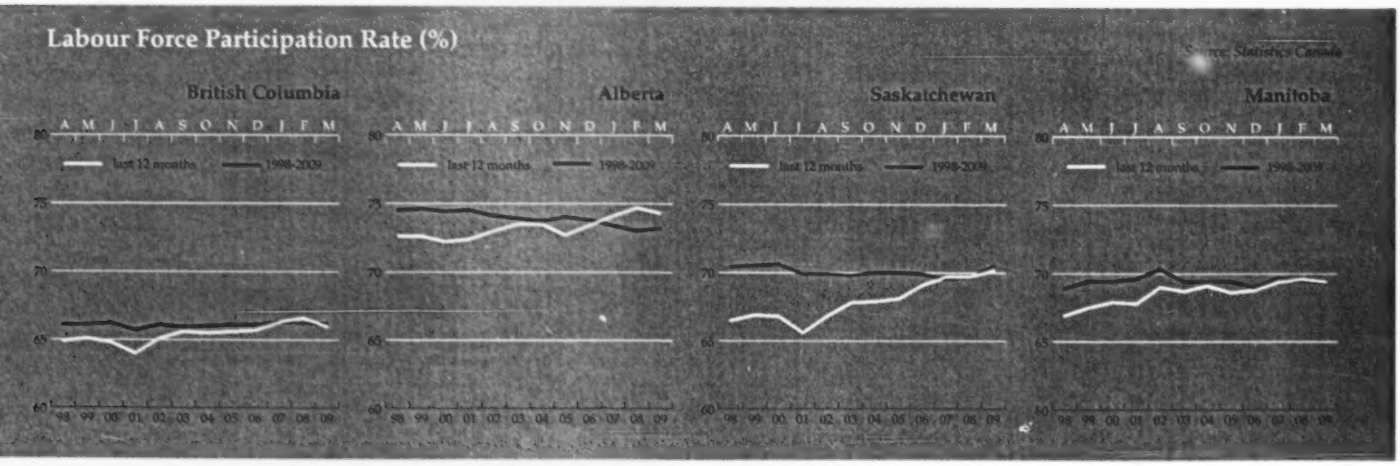


Monthly Feature

Federal Infrastructure Spending: Drops in the Bucket?

Over the past few months, a lot of ink has been spilled—or pixels generated—concerning the federal government's support of capital investment such as highway expansions and hockey arena construction, especially in the weeks following the budget.

Capital investment matters for all of us because it provides Canada with better equipment on which the economy can ride, thus increasing productivity. No wonder, then, that the federal government sprinkles loans, subsidies and grants among regions and sectors, especially municipal governments. We're talking here about $400 million in Manitoba and Saskatchewan, $1 billion in Alberta and $1.6 billion in BC over the course of two years.

While these amounts often sound impressive in a news release or a presentation to the media, they will represent only about 1.5% of total capital investment in the West over that period. In the West, total capital investment intentions for 2010 add up to $108 billion according to Statistics Canada's Private and Public Investment survey. This looks like a huge number (and certainly a lot more than the federal amounts mentioned earlier), but it is lower than the $127 billion peak level from 2008.

Recessions do things like that. Investment plans in the West were significantly pulled back in 2009 (a drop of 17.6%—see the chart). While there is growth on the horizon in 2010, it is quite weak at 3.1%. At this pace, it would take six more years to bring investment levels back to their 2008 levels.

In Alberta, the expected 2.3% investment rebound in 2010 will barely make a notch in the 26.3% drop of 2009, largely the result of significantly lower investment in the oil and gas sector. In fact, the West shows a $19.1 billion investment gap between the 2010 intentions and the 2008 peak, and $18.8 billion of it is from Alberta, where recent employment data confirmed that oil and gas activity is growing again but remains far below its 2008 level.

Investment in BC followed the same down-and-up pattern as in Alberta from 2008 to 2010 albeit in a less radical fashion, with a decline of 8.7% followed by growth of 4.8%. The end result is a $1.3 billion investment gap in 2010 compared to 2008, all attributable to a reduction in the transportation and warehousing industry, which includes highways and public transit.

Saskatchewan investment went down and up as well, but the 2009 decline was minimal (-0.1%) while the 2010 advance is the strongest in the West at 5.9%. This results in a $0.8 billion investment gain in 2010 compared to 2008—mainly due to higher investment in the mining and utility industries.

Manitoba is the exception to the pattern, with investment rising in 2009 (+5.0%) then edging down (-1.5%) in 2010. The lower results in 2010 are due to investment cutbacks adding up to $0.7 billion at large projects in the utilities and transportation sectors. However, this decline only offsets part of the 2009 gain, which means that Manitoba posts a two-year gain between 2008 and 2010 (+$0.3 billion).

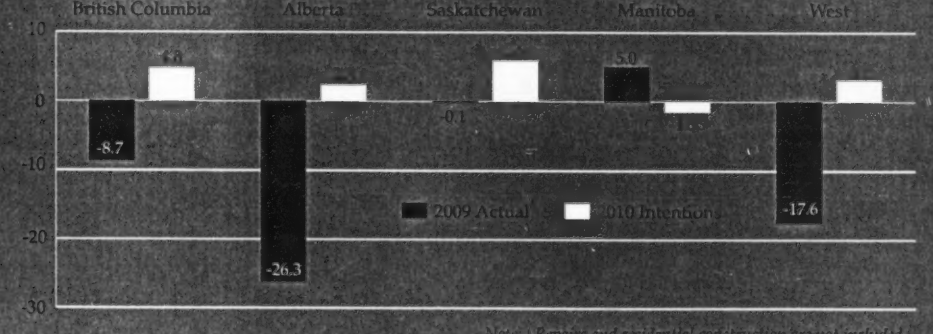
So compared to this, federal spending amounts to a mere drop in the bucket—well, perhaps two or three drops. The return to "normal" investment levels in the West will depend, as is generally the case, on decisions made by the private sector rather than by governments.

Did you know?

- Statistics Canada estimates capital investment intentions based upon a sample survey of 28,000 public and private organizations.
- Capital spending includes new construction and purchases of machinery and equipment.
- In 2008, 50% of Canada's capital expenditure took place in the West. This share is expected to be 45% in 2010. In comparison, the West's share of Canada's population was 31% in 2009.
- Between 2008 and 2010, spending on public administration infrastructure will increase by $1.5 billion in Alberta, more than BC and Saskatchewan combined.
- After public administration, utilities is the industrial sector posting the most significant investment growth across the West between 2008 and 2010, with growth rates ranging from 22% in BC to 72% in Saskatchewan.

Capital Expenditure Growth (%),
2009 Actual and 2010 Intentions

Source: Statistics Canada



Note: Repairs and residential construction are not included.

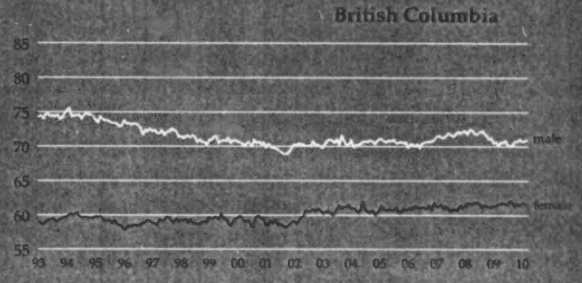
BEHIND THE NUMBERS

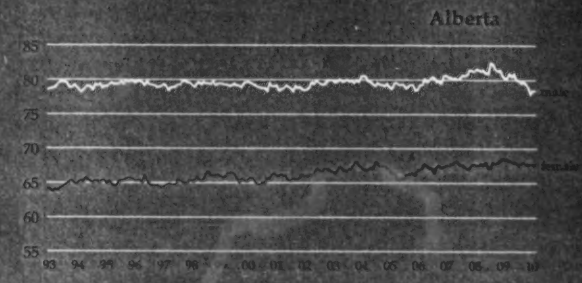
Every month new labour force data is released, and the focus is always on two indicators: job numbers and unemployment rates. Usually ignored in media coverage is the participation rate. This "poor cousin" evolves more slowly and is harder to explain (see footnote), but it matters because it measures how confident a population is in its labour market, and there are significant participation rate differences between western provinces.

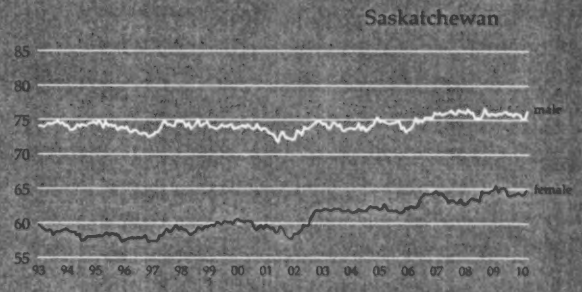
BC is the only province where the participation rate for males has trended down over the last 15 years, possibly as a result of the decline of the forestry industry. Alberta shows high participation rates for both males and females, but the male rate went down as a result of the past recession. Female rates in both Manitoba and Saskatchewan have made strong gains over the last 15 years. Each province currently shows a gap of about 10% between males and females, but the gap was much wider in the early 1990s.

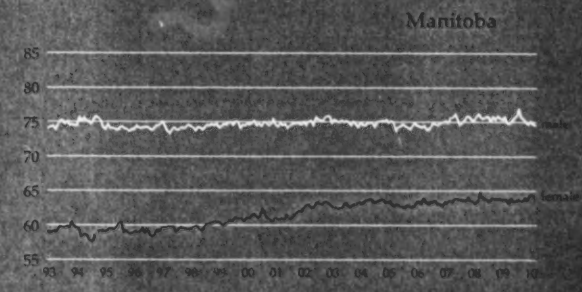
Labour Force Participation Rate (%)

Source: Statistics Canada









Note: The participation rate is calculated as the share of the working-age population which is either employed or actively looking for a job.

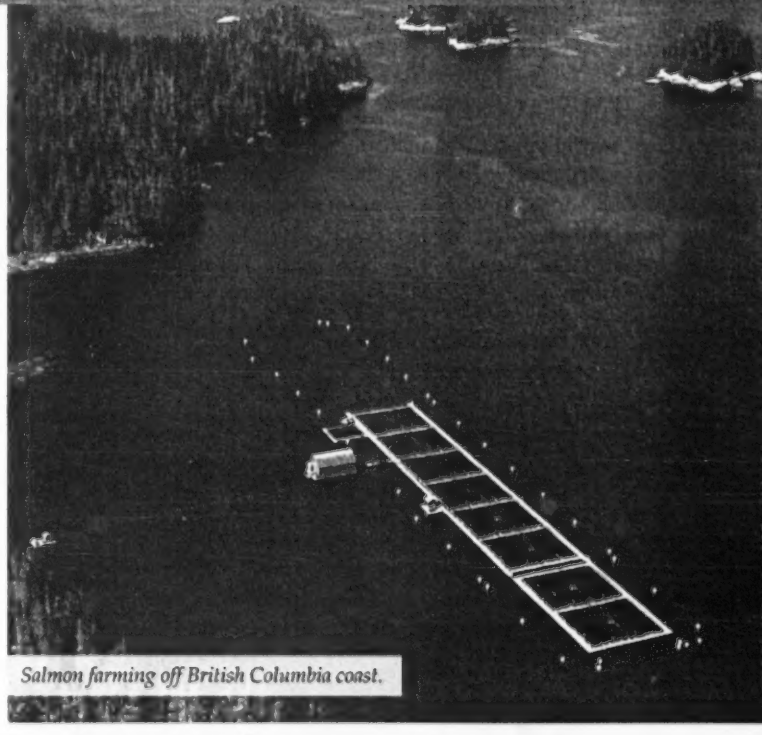
Industry Spotlight: British Columbia

Aquaculture

Aquaculture is defined as the managed production of fish. British Columbia's climate, water quality and sheltered bays make the province well-suited for the harvest of finfish (primarily salmon, trout and herring) and shellfish. In terms of volume, the industry has grown by a factor of 100 since the early 1980s.

Pacific and Atlantic salmon are the main focus, and farmed salmon is BC's largest agricultural export. In 2008, sales by BC's aquaculture industry amounted to $480 million, or two-thirds of the total for Canada, and generated $59 million in wages and salaries.

Farmed fish are found in both freshwater and marine facilities. Freshwater salmon and trout hatcheries are typically set on private land, while marine facilities are virtually all granted the use of Crown land offshore where they raise fish in open-net, deep-water enclosures. There are about 130 licensed marine water farm sites in BC.



Salmon farming off British Columbia coast.

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opinion

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Dirty Energy: Why the Focus on Oil Sands?

I am about to use a dirty word. I am going to use a four letter word that is almost never mentioned in polite society and is certainly being avoided by the media. Send your children out of the room. The word is coal.

Coal is one of the dirtiest sources of energy you can find whether it is used directly for heating and cooking or burned to generate electricity. The effects of coal were seen in the famous pea soup fogs that polluted the air in London until into the 20th century. The fact that young Chinese children describe the colour of the sky as grey rather than blue can be attributed to the use of coal traditionally in in-home braziers and now increasingly to generate electricity in China. Even the United States generates more than half of its electricity from coal resulting in more pollution than would occur using oil and much more than using hydro.

But do you ever hear all the activists who claim to be so concerned about the environment mention coal? I don't. Instead, they pour all their voices and their vitriol out on the oil sands in Alberta. Yes, oil production in the oil sands is less efficient than more conventional oil production, but industry experts measure the carbon footprint to be only 5% to 15% higher and not the three times greater that some activists claim. Even this would be partly offset by the fact that Alberta oil can be sent to market via pipelines rather than by ship.

Nor does oil sand extraction turn natural habitats into moonscapes. On a recent visit to the Fort McMurray area in Alberta, I found no evidence of permanently despoiled landscapes. Though the extraction process did cause temporary disruption to flora and fauna, post extraction activity restored both plant life and wild life. The families of buffalo including new calves may have been re-introduced there for effect, but they were thriving in the restored environment none the less.

I am not saying that coal is always bad. For some uses, such as making steel, we have not yet found an effective substitute for coal. Those who have no other alternatives should not be made to feel guilty about using coal. Of course, every effort should be made to develop and apply cost effective technologies to minimize the polluting effects of coal. Chimney scrubbers are an example of such technologies.

Nor am I saying that oil should be used for all our energy needs over the long term. We should be looking at solar and wind power and other energy sources and working to develop technologies to make them cost competitive with oil. We should also be looking at how to get more energy out of every barrel of oil through better systems for transmitting electricity, more efficient vehicles or any other means.

What I am saying is that people who are interested in the energy industry and the environment should ensure that the whole picture with all the limitations and advantages is brought to the attention of the public and the politicians. Currently, only a distorted picture of the oil sands is getting much attention. This results in Canada having to engage in serious discussions with Europe to avoid having trade restrictions put on imports of oil from the sands into Europe.

Europe and the US have been paying attention to the scruples of anti-oil sand activists. Poorer countries like India and China find this oil very attractive. It is also cleaner than the coal (or in India's case, even dung) that they have been relying on for power. If we listen to the loudest voices and fail to see our oil sand resources clearly as part of a total picture of energy sources, Canada may find it is losing control of a valuable asset. ■